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European Review

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3 July 1985

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European Review

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Looking Ahead

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views. Comments may be directed to the authors,

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Briefs**Canada****Foreign Policy Review**

After much delay, Canadian External Affairs Minister Joe Clark has established a 12-member, nonpartisan parliamentary committee to conduct a yearlong foreign policy review based on the government's Green Paper. The paper caused a storm of controversy when it was released in May because of its elementary nature—much of the media labeled it “sophomoric” in style and “banal” in content—and because it indicated that Ottawa would make final decisions on the issues of SDI and freer trade with the United States before the review was complete. The opposition parties, in fact, only agreed to join the committee after the government pledged to delay its decisions until an interim report covering SDI and bilateral trade is delivered in late August.

Despite their pledge, the Tories almost certainly have already decided to participate in SDI research in some form and to seek negotiations aimed at securing guaranteed access to the US market. At the same time, the media and several pollsters currently are reporting a strong anti-SDI bias among the public, and it is far from clear that a majority of Canadians—apart from the business community's publicists—support a trade accord with the United States. If the committee report this summer reflects this widespread opposition, Ottawa would be faced with the no-win choice of ignoring the results of its “consultations with ordinary Canadians” or forgoing two decisions it had hoped to use to keep the budding Canada-US rapprochement on track.

Portugal**“Eanista” Party Still Waiting for Eanes**

The Democratic Renewal Party, the so-called “Eanista” party, held its first congress in mid-June, electing Herminio Martinho party chairman and deciding to constitute itself legally in time to contest the anticipated early legislative election. But the congress opted not to run a candidate in the presidential election later this year, leaving party members the option of backing whomever they choose. Despite the optimism displayed at the long-awaited meeting, the congress did not really resolve any of the fledgling party's problems. It is still a party waiting for its real leader, President Eanes, whose refusal to commit himself has created low morale within the party, discouraged the active participation of some of his supporters, and led to a drastic drop in public support.

Fear of the potential strength of the Democratic Renewal Party had served as an incentive for the Socialists and Social Democrats to maintain the governing coalition; its failure to become a threat may have contributed to the Social Democrats' decision to rupture the coalition. Unless Eanes openly supports the party, it probably cannot prosper. It might be able, however, to steal enough votes in the expected parliamentary election from other parties—including the Communists—to allow it to become a minor party in a governing coalition.

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United Kingdom

Britain Getting Tougher on Trade Issues [REDACTED]

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The Thatcher government toughened its stance on two important trade disputes with Washington recently, [REDACTED]

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[REDACTED] On separate occasions, two subcabinet ministers publicly criticized the extraterritorial application of US technology transfer controls. One of the officials threatened that London would invoke legislation prohibiting British firms from observing US reexport licensing requirements. The government also agreed to consider a bill that would retaliate indirectly against US states with unitary tax laws, which impose taxation on the worldwide profits of multinational corporations. The proposed bill would abolish tax relief currently provided to US companies for dividends received from British subsidiaries. [REDACTED]

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The spate of Tory criticism may have been orchestrated by Trade Secretary Norman Tebbit, who has in the past threatened to retaliate against US legislation that he believes violates British sovereignty. He, as well as Prime Minister Thatcher—whose support he would seek before taking action—probably hopes that, by standing up for British interests abroad, they can regain some of the domestic support that they lost in recent months because of rising unemployment.

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Communist Party Turmoil [REDACTED]

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Hardline dissidents, by maintaining their control over the newspaper *Morning Star*, are embarrassing the Eurocommunist leadership of the Communist Party of Great Britain. On 11 June, the paper's managing board reelected the current editor and his deputy—both Stalinists—even though they were expelled from the party in May. Some board members are themselves not party members, and, according to press reports, approve of the Stalinists' unstinting support for "workers' causes." Party leaders, meanwhile, are starting a new weekly organ in which to make policy pronouncements and explain their ongoing purge of hardliners. [REDACTED]

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British Communists are in the midst of an ideological storm over—among other things—the ideas of Eric Hobsbawm, a Marxist economist who claims the British labor movement cannot create an anti-Thatcher coalition along traditional class lines. Hardliners reject this revisionism and, in addition, are impatient with the Eurocommunists' criticism of Soviet international policies. While the party is small—perhaps 12,000 members—it plays an active and disproportionate role in trade union politics; Eurocommunists and hardliners serve as cheerleaders to like-minded factions of the Labor Party, themselves beset with similar difficulties in fashioning an alternative to the Prime Minister's policies. [REDACTED]

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Belgium-China**Stress Over COCOM Restrictions**

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Belgian Foreign Minister Tindemans is concerned that another dispute with Washington over technology transfer will hurt his political standing and help the Socialist opposition just months before the general election in December. According to the US Ambassador, Tindemans fears that if Washington refuses to allow a Belgian firm to supply controlled communications equipment to China the firm will lose a valuable contract and that broader economic relations with the Chinese will be damaged. Tindemans says the Belgians believe that French and other suppliers will move in to fill the vacuum despite their promises to refrain.

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Belgium has been forced to pull back on a number of deals involving sensitive technology over the past year, including a nuclear cooperation agreement with Libya. The Belgian firm involved is located in Tindemans' home district, and, if it were to lose the Chinese contract, several thousand people might lose their jobs. Belgium has an unemployment rate of more than 13 percent. Tindemans' opponents have scored his support for US constraints on technology transfer, and he apparently expects Washington to do what it can to help him domestically.

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Articles

Yugoslavia: The Consensus Conundrum

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One of the more vexing issues facing the post-Tito leadership has been to define the ground rules for political decision making. Many Yugoslavs insist on broad use of consensus (unanimous) decisionmaking to ensure that the views of all the competing interest groups are taken into account. Others have called for majority rule, citing what they perceive as a leadership paralyzed by consensus voting. The issue flared up most recently last fall and is likely to surface again as the party prepares for its congress next year.

The issue is important because it affects the balance of power among the regions. Consensus tends to benefit some regions and majority rule others. The issue also has implications for the country's stability. While majority rule might help the leadership tackle problems more efficiently, it could also increase discontent among some groups and possibly strengthen separatist inclinations.

Consensus by Default

Broad use of consensus decisionmaking, even where not required by law, has become one of the hallmarks of post-Tito Yugoslavia. The leadership even during Tito's day seemed most comfortable with broadly based accords. But Tito could always step in when need be to break a deadlock or demand that a measure be enforced. Since Tito's death in 1980, the Yugoslav system has had neither a leader to play Tito's arbitrating role nor a strong central party apparatus or federal government administration to exact compliance. Decisions can only be implemented with the agreement of all the competing factions, and even then only spottily. As a result, during the past five years the leadership usually has taken bland, generalized positions. Its few strong stands—such as adoption of stabilization measures to deal with financial problems—still have not been fully put into force.

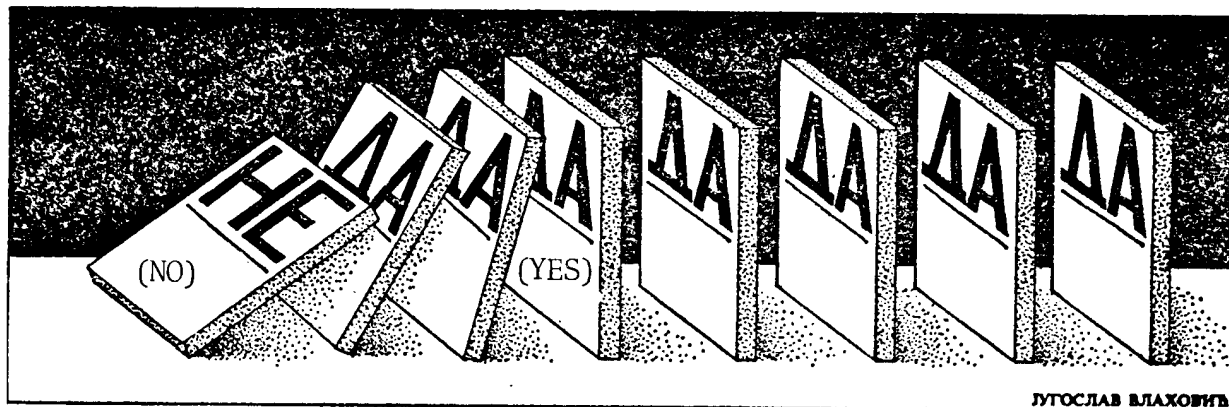
The use of consensus has its staunch defenders. They have come mainly from the richer northern republics, such as Slovenia, that have long advocated regional rights. The Slovenes and their Croatian cousins fear that majority rule could allow the poorer but more numerous southern regions to get a larger share of their resources and use them less efficiently. Their commitment to the Yugoslav federation could weaken if they lost many of their privileges through a change in decisionmaking practices.

Impatience With the Status Quo

At the same time, many Yugoslavs have been concerned over the central leadership's weakness and ineffectiveness. For them, the ability of each region to block action has led to occasional seeming paralysis. They fear that an inability to come to grips with key economic and political issues—even, if necessary, by overriding the views of some factions—also could create dangerous destabilizing pressures.

Serbia, the country's largest republic and site of the national capital, has been in the vanguard in urging a change in decisionmaking practices. Seeing themselves as guardians of national unity and long advocating stronger central authority, the Serbians have insisted on strict adherence to provisions in the Constitution calling for majority voting. They have also implied that the Constitution should be amended to provide for greater use of majority rule. The Serbians probably believe they can secure a majority on many pressing issues, particularly economic ones. Like other southern regions, they too would like greater access to northern-generated foreign exchange and capital.

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Serbian cartoon shows how, under consensus decisionmaking, one "no" vote can topple many "yes" votes. The number of dominoes is equal to the number of regions.

Belgrade NIN

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The controversy over consensus has simmered since last fall. In October, a federal vice premier and Serbian, Borisav Srebric, contended that nothing should be decided by consensus because it "gives the minority the power of the majority" and "greatly slows down work." Prominent Serbian party spokesman Dragoslav Markovic complained at a party plenum in October that the term majority decisionmaking is used only pejoratively and that "contrary to the Constitution" consensus has been expanded "everywhere." The Serbians identified a number of influential bodies in which consensus has become abused, including the Federal Executive Council (Council of Ministers) and the Assembly's Federal Chamber (upper house).

The Slovenes led the counterattack. They ducked Serbian charges that consensus had been overused and attempted to place the Serbians on the defensive by suggesting that Serbia wants to upset the post-Tito political order. A Slovene leader at the October plenum called the attacks on consensus "not in the spirit of the system" and argued that "we cannot abolish consensus on those questions that are fateful for the people."

The State Presidency (State Council) stepped into the fray a month later. It issued a public statement in mid-November that consensus decisionmaking should be used where specified by the Constitution but not in other cases. Despite the presidency's intervention,

there has been little evidence that Yugoslav leadership bodies since have changed their decisionmaking practices.

What the Laws Say

A look at the Constitution and other basic laws suggests that the system's reliance on consensus is more by choice or need than law. Few statutory changes would be required for the leadership to operate more often on the principle of majority rule. Many of the regulations already stipulate strict or qualified use of majority voting—both within the Communist party and in important governmental bodies. However, there are ambiguities in some bodies' operating procedures that disgruntled factions can exploit.

The only leadership body that must regularly conduct business by consensus is the Assembly's 88-delegate Chamber of Republics and Provinces (lower house). This body, composed of members of regional assemblies, is required to "ensure the coordination of positions" of regional assemblies by "agreement of these assemblies." On the basis of these agreements, it adopts laws in sensitive economic areas.

Conversely, the Assembly's 220-member Federal Chamber (upper house) is required by the Constitution to use "majority" decisionmaking. But

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Rules for Decisionmaking

Body	Duties of Body	Strict Majority	Majority With Exceptions	Consensus
Assembly Chamber of Republics and Provinces (lower house)	Adopts laws on foreign exchange, planning, aid to poorer regions, and price controls; sets size of federal budget.			X
Assembly Federal Chamber (upper house)	Determines structure and authority of federal bodies, oversees their work, ratifies treaties, declares war, and adopts budget.		X	
Federal Executive Council (Council of Ministers)	Proposes laws to Assembly including on plan and budget; runs federal administration.		X	
State Presidency (State Council)	Sets defense policy guidelines, nominates premier, has wartime powers, may propose legislation, and may hold up regulations.		X	
Constitutional Court	Decides on compliance of federal laws with Constitution and regional laws with federal law; determines jurisdictional competence in regional disputes.	X		
League of Communists (Communist party)	Plays "leading" role in political system; uses moral and coercive authority to propose and implement policy.	X		

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any one region may employ "special procedures" to obstruct legislation. According to these procedures, a working group reexamines the draft law and conducts "necessary consultations" to come up with proposals to "resolve the matter in dispute." The requesting delegation may reject even a compromise proposal.

The Federal Executive Council—like the Federal Chamber, accused of relying excessively on consensus decisionmaking—is also constitutionally required to use "majority" voting. In cases involving bills to be presented to the Chamber of Republics and Provinces, however, it is required to "cooperate" with the regional executive councils and must also seek "agreement" with regional bodies in implementing many of this chamber's laws and regulations. This latter provision underscores the federal government's weakness even in enforcing agreed-on measures.

The nine-member State Presidency also appears to rely on consensus even though it may not be strictly required to do so. The presidency's work rules, reported by the US Embassy in Belgrade in 1980, call for majority or two-thirds majority voting, depending on the issue. But the Constitution leaves room for ambiguity by stipulating that the presidency members shall "coordinate" positions of its members and "harmonize the common interests" of the regions. One article of work rules says voting may be postponed if views are "not coordinated."

The highest judicial body, the Constitutional Court, is required by the Constitution to use "majority" voting—and apparently is one of the few high federal bodies to do so in practice. In a decision announced earlier this year, for example, the court voted 11 to 3

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to declare unconstitutional the existing foreign exchange law, touching off a major political battle among the regions. The ruling also opened up polemics between representatives of Slovenia and some southern republics over the court's proper role—a flareup that may in part reflect Slovene concern about this body's use of majority rule.

The Yugoslav party—the League of Communists of Yugoslavia (LCY)—has been a classic example of an organization that has favored use of consensus despite its statutory norms. The LCY Statute instructs party bodies to operate according to the Communist principle of democratic centralism, which it defines as binding the minority to implement decisions “adopted by the majority.” The work rules of the 23-member LCY Presidium similarly stipulate majority voting. In practice, however, the Central Committee and the Presidium since Tito's death have either shied away from taking stands on controversial issues or adopted positions so general that the regions can interpret them as they see fit.

Outlook

We expect the ground rules for decisionmaking to continue to be a point of contention for the near future. Advocates of majority rule, such as the Serbian leadership, will probably continue to be dissatisfied with current practices and may renew pressure to narrow the scope for consensus. The ability of the Yugoslav system to move away from consensus decisionmaking, however, will be limited. The system must first develop greater coercive mechanisms, either in a revival of a central party apparatus that can exert itself over the regional party bodies or in a more muscular federal government administration. Neither prospect seems likely in the short term, although the party congress will probably make at least a token effort to strengthen central party control. In all likelihood, the Yugoslav system will continue to use decisionmaking methods that favor accommodation over efficiency. The result will be a typically Yugoslav brand of partially implemented half measures that create frustrations over leadership effectiveness while preserving at least a modicum of national unity.

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Romania: Relentless Austerity

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President Ceausescu responded to the financial crisis of 1981 by imposing severe austerity measures in order to pay off rapidly the country's hard currency debt. Since then, living standards have fallen to a near-subsistence level, and during the harsh winter of 1984-85 the populace experienced hardships probably unprecedented since the immediate postwar period. Indeed, the decline in consumer welfare apparently has contributed to a sharp rise in mortality rates. The outlook for improvements in living standards is not promising this year, as Ceausescu's drive to recover last winter's production and export losses and to eliminate the debt will claim the bulk of available resources. The 1986-90 economic plan allocates projected growth almost entirely to exports and investment.

The Five-Year Slide

From the outset of the financial emergency, Ceausescu has been determined to pay off the debt quickly in order to return to a policy of rapid growth without interference from foreign creditors. His policy differed from that of most financially strapped East European regimes, which, for fear of popular discontent, gave greater priority to protecting consumer welfare. Ceausescu apparently believed that his powerful security apparatus could control serious unrest.

Bucharest's adjustment effort quickly produced a major improvement in payments performance, but at high cost to growth and living standards. Between 1980 and 1982 hard currency trade moved from a deficit of \$1.5 billion to a surplus of \$1.5 billion, reaching \$2.3 billion in 1984. The huge trade turnaround was achieved mostly by sharp cutbacks in imports, which, in turn, depressed economic growth. The economy, which grew 4 percent a year in the period 1976-80, sagged to an average annual growth of about 1 percent in 1981-83. A modest recovery in 1984 was cut short by the severe weather over the past winter. The decline in production and a shift of resources to the external sector slashed domestic consumption—which already was lower than in all

other East European countries except Albania. Two critical components of consumer welfare—household energy use and food availability—were affected most severely.

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Energy

The Romanians achieved much of their trade gain by slashing oil imports nearly in half, paying for almost all the imported oil by bartering food, consumer goods, fertilizer, and agricultural machinery. As the authorities attempted to shield industry from energy shortfalls as much as possible, they cut sharply supplies to the household sector and increased consumer prices by 80 percent in 1980-83 for energy. In the winter of 1983-84 the government ordered a 50-percent reduction in household energy consumption and cut off electricity sporadically. In early 1985, the authorities mandated a further 50-percent cut in electricity usage, and cut off gas and electricity to residential neighborhoods in many cities for several days at a time during exceptionally cold weather. Households were limited to one 15-watt light bulb and one appliance and the militia was ordered to inspect residences, fine violators, and sometimes plaster over electrical outlets. Transport suffered serious disruptions interrupting deliveries of food and other goods and causing employees difficulty in getting to and from work. The use of private automobiles was banned from January until late March, and gasoline remains rationed at between 20 and 30 liters per month. Schools in many areas were closed for up to two months for lack of heat and electricity.

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Food

The regime reacted to food shortages in late 1981 and early 1982 by imposing formal rationing on sugar, flour, and cooking oil. Since then, the performance of the agricultural sector has deteriorated further—

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despite official claims—in large part because of exports of fertilizer and other inputs needed at home. The regime's response has been to decrease food supplies to local distributors, causing a reduction of about 25 percent in rations below the 1983 level. Livestock products—especially meat and milk—are so scarce that they are not formally rationed, except by purchase limitations when available. Although Bucharest claims per capita consumption of meat supplies is about 60 kilograms per year, we believe a variety of other evidence that indicates it is less than half of this amount. Moreover, state retail store prices of foods have surged by over 50 percent since 1981, with only bread prices remaining relatively stable.

Real Income

We believe that there has been a sharp drop in the purchasing power of the population despite official data that per capita incomes have kept pace with consumer price increases. In addition to increases in prices for energy and food, many emigres have reported that rents have doubled, the prices of clothing and durable goods have jumped steeply, and the quality and variety of consumer goods has deteriorated. Meanwhile, some 2 to 5 percent of worker wages are being withheld under a mandatory "investment" program. We believe that real purchasing power has declined by at least 20 percent in the period 1980-84 and that, if an adjustment could be made for quality declines, the falloff would be even more.

Increased Mortality

Mortality rates have increased as a result of poor nutrition, inadequate heat, the unavailability of medications, and Ceausescu's ban on abortions. The infant mortality rate, already significantly higher than elsewhere in Europe, climbed by 35 percent in November 1984-January 1985 compared to January-September 1984.

In some areas, baby formula is not available and young children can obtain milk only with a doctor's prescription. Maternal mortality rates apparently have increased as well. Ceausescu's ban in early 1984 on abortions has made deaths from illegal abortions common. [] also report a jump in the death rate among the elderly. The crude death

Table 1
State Retail Food Price
Increases, 1981-84

Food Item	Percent Increases
Beef	100
Pork	83
Sausage	28
Chicken	77
Milk	39
Cheese	76
Rice	69
Sugar	72
Flour	37
Bread	8
Eggs	24
Coffee	106
Butter	35
Margarine	83
Oranges	38
Lemons	52
Apples	78
Vegetable oil	55
Vodka	37

rate for the entire population since 1980 has increased far more rapidly than in any other East European country.

Regime Responses

According to all evidence, worker discontent since a rash of disturbances in 1981-82 has generally been limited to grumbling, increased absenteeism, and apathy. Bucharest's reaction to deteriorating popular morale has been to increase coercion steadily, heighten the campaign to foster nationalism, and issue exhortations to work harder. The security apparatus has increased its surveillance of workers in industrial installations where unrest has occurred in past years and among the Hungarian minority. Except for issuing special food supplies for coal miners and workers in some large plants, the regime has not relied upon positive incentives.

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Table 2
Romania and Selected Countries:
Infant Mortality Rates, 1983

*Deaths per 1,000
children under 1*

	1983
Romania	26.8
Bulgaria	16.5
Hungary	19.0
East Germany	10.7
Poland	23.2
Czechoslovakia	15.6
United States	10.9
Spain	10.0
Italy	12.0
Sweden	8.0

Sources: *Anuarul Statistic al Republicii Socialiste Romania, 1984*; *Statisticheskii ezhegodnik stran-chlenov Soveta ekonomicheskoy vzaimopomoshchi, 1984*; World Bank, World Development Indicators, 1985.

[REDACTED]

Economic coercion has taken several forms:

- The regime in 1983 raised production goals and installed a new wage system closely linking salaries to production targets. Workers in many factories where targets are not met lose 25 to 30 percent of their monthly base wages. In addition, workers receive only a small portion of their base wages when a factory shuts down for lack of energy or other raw materials.
- Retirement ages have been raised, pensions cut, and workers in some factories and mines are being forced to work double shifts.
- The regime has cracked down on black-market activity to limit shortage-caused disruptions in retail markets.
- To increase control over private agriculture, Ceausescu imposed price ceilings in 1983 and compulsory deliveries to the state in 1984. Private farmers, who produce about half of all livestock products and some crops, responded by cutting output and sales. The regime has retaliated by limiting food sales in villages to spur more

Table 3
Romania and Other East European
Countries: Crude Death Rates, 1980-83

*Deaths per
1,000 population*

	1980	1983	Percent Change
Romania	10.4	12.3	18
Bulgaria	11.1	11.4	3
Hungary	13.6	13.9	2
East Germany	14.2	13.3	-6
Poland	9.9	9.5	-4
Czechoslovakia	12.2	12.0	-2

Source: *Anuarul Statistic al Republicii Socialiste Romania, 1984*; *Statisticheskii ezhegodnik stran-chlenov Soveta ekonomicheskoy vzaimopomoshchi, 1984*.

[REDACTED]

production by rural dwellers and by making supplies of animal feed and other agricultural inputs to private farmers contingent upon delivering animals to the state. [REDACTED]

The Coming Years

The next few years, in our judgment, will see little improvement in living standards. Ceausescu has shown no indication that he will ease up on his drive to pay off the debt and resume rapid economic growth. Despite good performance in reducing debt so far, the bunching of obligations in the next few years promises little slack in demands on the economy. Debt service will exceed \$2 billion annually through 1988. Indeed, Romania's financial scare in May 1985—when an emergency short-term loan was acquired from Western banks to make a payment on rescheduled debt—is likely to spur Ceausescu to push exports even harder at the expense of the domestic economy. [REDACTED]

In its effort to generate exports, the regime probably has aggravated its structural economic problems. It not only has relied on producing more energy-intensive goods such as steel and heavy machinery for export, but it also has failed to make industry more efficient in its use of raw materials and energy. Its cutbacks on imports of spare parts for industrial

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equipment and neglect of maintenance have further undercut efficiency. Meanwhile, it has undermined its natural advantage in agriculture by exporting inputs desperately needed at home. Ceausescu also has continued to push ahead with grandiose investment projects that will not produce meaningful economic returns for many years. [REDACTED]

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Evidence from a variety of reports suggests the populace—cowed by pervasive security forces and preoccupied by the day-to-day struggles to carry on—expects worsening conditions. Widespread rumors circulate that the authorities will completely cease supplying heating fuels to households next winter, and many families are scrounging for coal and wood in preparation. Under the current energy conservation program, the priority for energy is industrial production and stockpiling to prevent the serious industrial shutdowns of the past two winters. Food supplies to the population are unlikely to improve much, with grain crop prospects only mediocre and with a decrease in animal herds last winter. The regime has shown no inclination to reduce food exports, and may well attempt to increase agricultural exports to recoup first-quarter 1985 export losses. Since goods and services needed to maintain health and welfare are likely to remain curtailed, we expect mortality rates will continue their upward trend [REDACTED]

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Economic News in Brief

Western Europe

Disappointing results for the first quarter show Spanish real GDP growing at an annual rate of 1.5 percent . . . Bank of Spain has lowered its forecast for 1985 GDP growth from 3 percent to less than 2 percent. . . . Officials now project up to 150,000 additional jobs will be lost this year, which we estimate would raise the unemployment rate 1 percentage point to 23 percent.

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UK Department of Energy will launch wide-scale energy conservation campaign in November with eye to cutting national energy bill by 20 percent . . . four leading advertising agencies, including Saatchi and Saatchi, competing for the \$8 million account . . . Energy Secretary Walker calling 1986 Energy Efficiency Year, to the chagrin of Department of Trade and Industry that had previously designated next year as Industry Year.

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Looking Ahead

July

West Germany

West German Chancellor Kohl will visit Ankara on 9-11 July . . . probably hoping to convince Turks to accept limitations in 1986 on the freedom of movement for Turkish workers within the EC . . . Ankara likely to press for West German investment in Turkey and request Bonn's aid in improving strained Turkish-EC relations.

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Spain

Spanish Prime Minister Gonzalez to travel to Cuba, Ecuador, and Peru from 19 to 30 July . . . three-day stop in Cuba will be his first since becoming Prime Minister . . . may be intended as a sop to left-leaning Socialists who are unhappy with government's pro-NATO policy.

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